



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PPD 730.5.20.1

June 23, 2003
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MEMORANDUM FOR REGIONAL DIRECTOR, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Accomplishment of MAAR No. 6

This memorandum reiterates existing audit guidance for accomplishment of MAAR No. 6 at major and nonmajor contractor locations and addresses APPS and DMIS Users Guide revisions regarding the appropriate activity code for each. The guidance also emphasizes the need to perform an adequate risk assessment at major contractor locations to determine whether to perform labor floorchecks or labor interviews for any given fiscal year.

Background

The purpose of a MAAR No. 6 review is to test the reliability of employee time records, verify that employees are actually at work, that they are performing in assigned job classifications, and that time is charged to the proper cost objective. MAAR No. 6 may be accomplished by conducting floorchecks and/or labor interviews. The decision whether to perform floorchecks or interviews or a combination of both depends on the level of assessed risk. At major contractor locations, the risk level is determined after performing the preliminary audit steps and performing steps to evaluate conditions influencing labor charging practices. The CAM guidance at 6-402c(1) describes the process to be used at major contractors. There has been some confusion regarding the appropriate audit program to use when accomplishing the MAAR No. 6 reviews at major contractor locations because it is unclear in the current APPS which activity code is applicable.

Guidance

Major Contractors

To determine the appropriate scope for the annual MAAR No. 6 review, auditors cognizant of major contractors should perform and document a detailed labor risk assessment. The audit program to be used to perform the annual detailed risk assessment of labor charging practices at major contractors is provided under activity code 13500 in APPS (formerly DIIS audit program APLABRCK). If the *Preliminary Steps* (WP section B) and *Evaluation of Conditions Influencing Labor Charging Practices* (WP section C) disclose areas of high risk, the auditor should perform detailed employee interviews. If high risks are not disclosed, floorchecks should be performed. Audit steps for performing either employee interviews or floorchecks are included in the audit program.

Therefore, a 13500 activity code assignment should be established for each major contractor and the preliminary steps and the assessment of conditions influencing labor charging practices should be performed annually to determine whether employee interviews or floorchecks should be conducted. The title of the 13500 activity code will be changed in APPS from Comprehensive Labor Reviews to Major Contractor Labor Floorchecks/Interviews to more clearly describe the activity under this 5-digit code. A corresponding change will be made to the DMIS Users Guide to clarify the title and description of the 13500 activity code. The report shell that is currently delivered with activity code 13500 will be deleted because it renders an opinion on internal controls based upon interviews alone. The reporting for major contractors will be in accordance with CAM 6-403b: issuance of a Memorandum For Record (MFR) if there are no deficiencies, or a flash report if there are significant deficiencies.

Nonmajor contractors

For nonmajor contractors that are not subject to low risk sampling, MAAR No. 6 would generally be accomplished by conducting annual labor floorchecks. The auditor should not perform detailed employee interviews unless hard leads have been disclosed that suggest significant risk exists.

For nonmajor contractors that are subject to low risk sampling, floorchecks should be performed every three years. In accordance with Agency policy, up to two-thirds of the low risk submissions are subject to desk reviews and not audits (CAM 6-104.2). Therefore, the auditor should not perform annual floorchecks for these contractors unless there are unusual circumstances resulting in increased risk for the current year.

Activity code 10310 (formerly DIIS audit program APLABRCK-NM) is the assignment code to be used for MAAR No. 6 reviews at nonmajor contractor locations. The title in APPS will be changed from TS MAAR No. 6 Labor Floorchecks or Interviews to Nonmajor Contractors Labor Floorcheck/Interviews to more clearly describe the activity under this 5-digit code. A corresponding change will be made to the DMIS Users Guide for activity code 10310. Reporting options for activity code 10310 will remain unchanged (e.g., issue MFR or flash report).

These changes are expected to be included in the July 2003 APPS update. FAOs are reminded to consider the guidance at CAM 6-402 when preparing their Program Plan for FY 2004.

Auditors should address any questions related to this memorandum to their regional office. Regional questions regarding this memorandum should be directed to Ms. Patricia Letzler, Program Manager, Policy Programs Division, at (703) 767-2270.

/Signed/
Robert DiMucci
Assistant Director
Policy and Plans

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